Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, January 3, 1955. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Balderston

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Vest, General Counsel

The following matters, which had been circulated among the members of the Board, were presented for consideration and the action taken in each instance was as indicated:

Memorandum dated December 8, 1954, from Mr. Dembitz, Assistant Director, Division of International Finance, recommending that the position in the Special Studies Section of that Division currently occupied by Mary F. Miller, Statistical Assistant, be added to the list of those previously designated as "sensitive" positions.

Approved unanimously, with the understanding that a field investigation of Miss Miller would be conducted.

Memorandum dated December 28, 1954, from Mr. Young, Director, Division of Research and Statistics, recommending that the resignation of Abigail Banghart, Clerk-Stenographer in that Division, be accepted effective January 7, 1955.

Approved unanimously.

Letter to Mr. Phelan, Vice President, Federal Reserve Bank of New York, reading as follows:

This is in further reference to your letters of October 11 and 14, 1954, and enclosures, concerning whether certain arrangements of the Fidelity Union Trust Company, Newark, New Jersey, and The National City Bank of New York, New York, New York, for the purchase from retail dealers of installment payment contracts entered into with their customers, involve the creation of deposit liabilities against which reserves must be maintained under section 19 of the Federal Reserve Act and the Board's Regulation D. Further information with respect to the arrangement of the Fidelity Union Trust Company was forwarded with your letter of November 5, 1954.

Under the arrangement of Fidelity Union Trust Company (hereinafter referred to as "Fidelity") it appears that, at the time of purchase of each installment payment contract, Fidelity pays to the dealer a sum equal to the "time balance" due thereon, less the finance charge; credits a "Bank Reserve" account in the dealer's name with a sum understood to equal a portion of such finance charge; and credits its own unearned income account with the remaining portion of such finance charge.

The basic agreement between Fidelity and the dealer provides that the "Bank Reserve" is maintained by Fidelity "for the purpose of computing from time to time any amount which may become payable" to the dealer as follows: If, on November 30, in any year, the balance to the credit of the "Bank Reserve" exceeds an amount equal to 5 per cent of the aggregate amount of the then unpaid balances remaining due to Fidelity on all outstanding contracts purchased from the dealer, Fidelity shall "pay to" the dealer, unless he is in default on any obligation to Fidelity, such excess as when charged to the "Bank Reserve" shall not reduce such reserve below $500. Such agreement provides for appropriate debits and credits to the "Bank Reserve" in the event of defaults, repossessions, or prepayments in connection with outstanding contracts purchased by Fidelity; and Fidelity undertakes to supply the dealer at least quarter-annually with reports showing the debits and credits to the "Bank Reserve". The basic agreement also provides that, on termination thereof, the dealer shall be paid any balance in the "Bank Reserve" remaining after such charges thereto as may be necessary to provide for full payment of all contracts purchased by Fidelity from the dealer.

Finally, it is noted that such agreement provides that the payment to the dealer and the credit to the "Bank Reserve" at the time of purchase of a contract, together with any further payment to the dealer, as described above, "shall be in full satisfaction" of Fidelity's "obligation" to the dealer with respect to the "purchase price" of each contract purchased by Fidelity.

The monthly collections received by Fidelity on outstanding contracts purchased by it apparently are in no way segregated from its other funds, and it appears that no part of such collections are entered in the "Bank Reserve". However, such monthly collections clearly would seem to include fractions of that part of the finance charges which were credited originally to the "Bank Reserve" and which Fidelity is obligated to pay the dealer unless applied as provided in the basic agreement. The fact that such fractional parts of the collections may not be immediately available to the dealer and probably will be used by Fidelity at least in part to cover losses on contracts purchased by it, is not considered to be a controlling consideration.

Consequently, on the basis of the Board's understanding of the information submitted and unless there are further facts and circumstances of a material nature which you feel should be brought to the Board's attention, the Board is of the view that the amounts of such fractional parts of the collections constitute a deposit liability against which reserves must be maintained under Regulation D except to the extent of any portion thereof which is either paid over to the dealer or applied against any obligation of the dealer to Fidelity under the basic agreement. Whether or not the collected funds in question in this case constitute time deposits rather than demand deposits, of course, will depend upon whether there is compliance with section 1(d) of Regulation D.

With respect to the two arrangements of The National City Bank, the only information submitted were copies of the formal contracts entered into by that bank and the parties from whom installment payment contracts are purchased. From an examination of these contracts, it appears that the two arrangements are somewhat similar to the arrangement used by Fidelity. However, if your further review of the two arrangements of The National City Bank and the manner in which each one is handled as a practical matter leads you to feel that they should not be regarded as subject to the views expressed above with respect to the arrangement of Fidelity, the Board will be glad to give further consideration to the arrangements of The National City Bank.

Approved unanimously.

Letter to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

In view of the circumstances outlined in your letter of December 22, 1954, and the Reserve Bank's favorable recommendation, the Board of Governors further extends until June 30, 1955, the time within which The Cleveland Trust Company, Cleveland, Ohio, may establish a branch at the corner of Wolf and Dover Center Roads, Bay Village, Ohio.

Approved unanimously.

Letter to Mr. Millard, Vice President, Federal Reserve Bank of San Francisco, reading as follows:

Reference is made to your letter of December 22, 1954, and enclosures advising of the proposal of the California Bank, Los Angeles, California, to remove its Torrance Branch from 1329 Sartori Avenue to a new location at 1403 Sartori Avenue.

It appears that this proposal would constitute a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served and, accordingly, we concur in your view that the approval of the Board is unnecessary.

Approved unanimously.

Memorandum dated December 28, 1954, from Mr. Sloan, Director, Division of Examinations, submitting for approval letters to the following foreign banking corporations, the first four of which were organized under State laws but operate under agreements made with the Board pursuant to the provisions of section 25 of the Federal Reserve Act, and the last two of which were chartered by the Board under the provisions of section 25(a) of the Act, requesting that they submit reports of condition as of December 31, 1954:

Bankers Company of New York	New York, New York
First of Boston International Corporation	New York, New York
International Banking Corporation	New York, New York
Morgan & Cie. Incorporated	New York, New York
Bank of America	New York, New York
The Chase Bank	New York, New York

Approved unanimously, together with a letter to Mr. Wiltse, Vice President of the Federal Reserve Bank of New York, advising that the corporations were being requested to submit the reports to the New York Bank for transmittal to the Board of Governors.

There were presented telegrams to the Federal Reserve Banks of Richmond, Chicago, St. Louis, and Kansas City approving the establishment without change by the Federal Reserve Bank of St. Louis on December 27 and by the Federal Reserve Banks of Richmond, Chicago, and Kansas City on December 30, 1954, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 30, 1954, were approved unanimously.

The meeting then adjourned.

Secretary's Note: Pursuant to action taken by the Board on December 23, 1954, a telegram was sent today to the President of each Federal Reserve Bank stating that the Board had established, under authority of section 16 of the Federal Reserve Act, the rate of (see column 1) per cent per annum interest for the preceding three calendar months on the daily average (see column 2) of outstanding Federal Reserve notes of the Bank in excess of gold certificates pledged with the Federal Reserve Agent as collateral security; and requesting that an interest payment of (see column 3) be credited to the Treasurer's General Account on January 3, 1955:

Boston	1.2184	$ 998,008,902	$ 3,064,920.88
New York	1.7175	3,365,048,391	14,567,432.77
Philadelphia	1.4200	1,088,613,775	3,896,342.56
Cleveland	1.4132	1,482,411,661	5,280,407.20
Richmond	1.0905	1,260,573,971	3,464,886.14
Atlanta	1.2019	952,228,987	2,884,726.84
Chicago	1.7506	2,709,604,298	11,956,051.02
St. Louis	1.0647	858,628,902	2,304,240.05
Minneapolis	1.2466	446,734,345	1,403,690.72
Kansas City	1.4053	764,184,775	2,706,838.78
Dallas	1.2859	499,322,770	1,618,391.28
San Francisco	1.8349	1,329,243,898	6,147,691.12

The payments for the Federal Reserve Banks of New York, Dallas, and San Francisco were determined after deducting the amounts of $3,264,182, $768,987, and $1,153,515, respectively, to bring surplus, section 7, of these Banks up to an amount equal to 100 per cent of subscribed capital stock.

Carpenter
Secretary